AllianceBernstein®

EXECUTION GUIDE

INSPIRING REFERRALS FROM CLIENTS, ACQUAINTANCES AND SOCIAL MEDIA

In a market that is overcrowded with Financial Advisors (FAs) all chasing a limited potential client base, a referral from a current client, an acquaintance or someone in your social media network can be invaluable.

This guide explores important changes that have happened in the cultural landscape of the US over the past 40 years and how those changes have impacted the way FAs grow their businesses. We explore three common mistakes that advisors make when seeking a referral, and we offer several messaging guidelines that help to avoid these errors. Finally, we provide strategies for inspiring referrals.

AB **ADVISOR INSTITUTE**℠

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REFERRALS ARE A GREAT SOURCE OF NEW BUSINESS. BUT HOW CAN YOU UTILIZE YOUR FRIENDS, FAMILY AND NETWORK WITHOUT DISRUPTING THE UNDERLYING RELATIONSHIPS? BY DEVELOPING AN INSIGHTFUL AND EDUCATIONAL MESSAGE, DELIVERING IT IN A THOUGHTFUL MANNER, AND ALLOWING PEOPLE TO CHOOSE TO HELP.

HOW WE GOT WHERE WE ARE TODAY

A retrospective look at the industry is necessary to help us understand the changes in our culture and our economic environment and how those changes influenced our industry.

Over the past 40 years, the Baby Boomer generation has represented an important and formative influence on the financial-services industry that has affected how FAs designed and managed their businesses. Looking back will help us clearly see the issues we'll be coping with for the next several decades. In fact, by understanding the Baby Boomers' experience with financial services over these years, we will gain helpful insights into how to construct more effective outreach messaging that will help attract new clients to a practice.

Let's start by observing the trajectory of growth and plateaus of our industry over the past 40 years. In 1981, 5.7% of the households in the US had a mutual fund investment—a relatively low penetration rate.[1] In this case, we're using ownership of mutual funds as a representation of the public's engagement with the financial markets. We can see mutual funds as the popular approach to investing, compared to more complicated individual equities or bonds. While mutual funds have been available since the 1930s, until 1981, only a small percentage of the population was invested. Suddenly and explosively, the culture embraced mutual fund ownership. Ownership maxed out at 46% of households by the mid-2000s and then leveled off.

The financial-services industry expanded along a similar trajectory, from 243,700 advisors in 1980 to more than 670,000 Registered Representatives in 2000.[2] What caused this explosion of growth? Demographically, the oldest Baby Boomer turned 35 in 1981, followed by 78 million others (approximately four million a year for 20 years). As these millions of Americans approached retirement and looked to invest their savings, they began to own mutual funds. Interest in the benefits of investing grew and became magnified in the culture. The industry grew as quickly as possible to accommodate the demand.

1 Investment Company Institute, *2020 Investment Company Fact Book*, as of December 31, 2019
2 Financial Industry Regulatory Authority and US Bureau of Labor Statistics, as of December 2019

EXPLOSIVE GROWTH LEVELED OFF

The growth was explosive for the first 20 years, but then leveled off. This helps to explain why growth rates of individual FA businesses have been far less robust in recent years. Fewer FAs survive the challenges of starting a business in this environment. Even established advisors have seen a steep decline in organic referrals.

This also helps us understand some patterns of behavior in well-established FAs. For FAs who experienced the "golden age" of expansion, the past decade has been very challenging. "The way we've always done it" no longer applies, and the business-management and client-management requirements for building a successful business have increased dramatically.

In addition to the leveling of growth rates, other trends should be considered to understand what has happened and to clarify what is likely to happen next. But we can already see that the forces and trends that built our industry have shifted dramatically in recent years. From a very young, robust and growing industry, financial services has aged rapidly and now looks more like an old, established and possibly declining industry—declining at least from the euphoric peaks of the turn of the 21st century.

THE DISTRIBUTION OF WEALTH

Another factor that is challenging today's FA relates to the distribution of wealth in the US. Rather than being distributed evenly, wealth is controlled by a very small percentage of the US population. In fact, the top 1% controls more than 32% of all the wealth in the country, and the top 10% accounts for 70% of the wealth.[3] In practical terms, this means that there are about 12 million families who have $1 million or more in investable assets and have the kind of complex financial lives that require a full-service FA.

To put this in even starker perspective, there are 1.5 million high-net-worth families in the US with more than $10 million in assets,[4] and many of the 600,000-plus representatives and brokers are pursuing them. It's a very crowded industry of highly motivated advisors chasing a relatively small number of clients, most of whom already work with at least one advisor.

3 Katharina Buchholz, "The Top 10 Percent Own 70 Percent of U.S. Wealth," Statista.com (October 14, 2019)
4 "How Many Millionaires Are There in America?," DQYDJ.com (September 30, 2020)

THE PSYCHOLOGY OF REFERRALS

Humans are sensitive to feeling controlled. The right message is important.

FIRST REFERRAL SOURCE: THE GATEKEEPER

In this context of an oversupply of advisors and a very limited number of desirable clients, the relatively few but highly sought-after consumers have been pursued endlessly, causing them to erect barriers against the barrage of messages. One of the key protections that uniquely successful families have created is the role of trusted advisor. Often a trusted advisor, such as a CPA or attorney, functions as a gatekeeper to the wealthy. Clearly, one important skill an FA must have is the ability to motivate professionals to make referrals.

SECOND REFERRAL SOURCE: EXISTING CLIENTS, PROSPECTS, ACQUAINTANCES AND SOCIAL NETWORK

Working with professionals isn't the only way an advisor can generate a healthy flow of referrals. Existing and potential clients can be another important source of contact with new investors. And, just as important, an advisor's personal social network may be filled with friends and acquaintances who could make ideal clients. The challenge is how to persuade these people to change the nature of their relationship from simply friend to friend *and* client.

In addition to a standard circle of friends, social networking sites, such as LinkedIn and Facebook, provide a larger pool of connections that can open up new channels of referrals if the advisor approaches these contacts carefully. "Carefully" is an important caveat for advisors to heed when building their outreach plans.

Messaging today cannot simply reflect the traditional "Lead With" description of what you do for your clients; everyone in your social network knows what an FA does. Acquaintances and people in your social media network have a specific understanding of the type of relationship they have with you. Stepping out and boldly promoting yourself puts the existing relationship at risk. Just because you have a relationship with someone doesn't mean that he wants to become your client or send you a personal referral. The prudent advisor takes great care to build a strategy that preserves the existing relationship while increasing the possibility that a client, acquaintance or social contact will be motivated to redefine the existing relationship.

THE PROBLEM OF REACTANCE

For the sake of simplicity, we will call the preferred kind of messaging a "Lead To" communication strategy. Instead of assuming engagement and getting right into the features and benefits of your practice (the Lead With approach), it's more effective to start with a relevant observation of the current situation and the challenges that investors face. Eventually, the conversation arrives at the ultimate destination, framing you as a skillful expert who can protect investors from challenges in the market. Importantly, this process assumes that motivation to act must be inspired by the structure of ideas and the language that is used. Because of this, the conversation must be managed and developed intentionally.

Regardless of the type of relationship—existing clients, acquaintances who are not clients, and members of your social network—there is one psychological element that they all have in common: each group has defined the type of relationship that they have with you. The structure of the relationship defines what can—and what cannot—be done within it.

Existing clients know that they can expect a wide variety of professional services in exchange for the fee they pay. Friends and acquaintances know that there are different expectations and limitations within relationships, depending on the closeness of the relationship. Close friends usually expect more from each other than acquaintances; however, there are limits on the type of behavior that will be tolerated from friends, regardless of how close the relationship. An advisor runs the risk of alienating his friends and social network if those relationships aren't protected.

The psychology behind this expected protection comes from the built-in human need to avoid being controlled by others called reactance. People dislike being controlled or manipulated by others. We are hardwired to pursue autonomy in all relationships. The challenge is to manage reactance. Regardless of whether you are seeking a referral from a client or friend, instead of directly approaching the person with an offer to join your practice, the prudent advisor approaches such conversations carefully to avoid the mistakes that can be made in each type of relationship.

THREE COMMON MISTAKES

Because there are three different types of relationship structures involved, there are three common mistakes that advisors make when having conversations about referrals. Each is related to the concept of reactance; the referral source must not feel as though the advisor is seeking to control his behavior.

1: ASKING, NOT EDUCATING

The advisor is caught in a tough situation when it comes to seeking referrals. On one hand, the advisor wants to take an action that she can control rather than waiting for a client to decide on his own to make a referral. Advisors are taught to be proactive and to approach people directly. Such direct approaches, however, often activate reactance when executed within a defined relationship. Potentially, the advisor can do more harm than good by directly asking clients to make referrals. As a result, the advisor wants to ask but feels that asking risks a negative outcome. The fact is that if the request stirs up reactance, it can permanently harm an existing relationship.

2: NOT ASKING AT ALL

On the flip side, most advisors are protective of their friends and acquaintances and avoid initiating any conversation about engagement. This is also an error, as these advisors feel they must remain passive and wait for their friends to decide on their own. In both cases, a strategy based on educating and inspiring the client or friend to make a referral can be a much better approach.

3: ANNOYING YOUR SOCIAL MEDIA NETWORK

The digital social network is a bit different. Many advisors make the mistake of assuming that their social media network can be approached with direct commercial appeals. In reality, no one joins social media to get a barrage of commercial messages. Therefore, a strategy for working with digital networks is centered on inviting your network to opt in to receive valuable information regularly from your practice.

MESSAGING GUIDELINES

An effective message should not be a simple description of your capabilities. In order for your messaging strategy to be effective, it needs to motivate action.

Asking for a referral starts with a great message. But, as discussed, that messaging cannot be the traditional Lead With description of what you do for your clients. Such direct messages stir strong negative feelings that can actually harm a relationship.

The proper message should include a combination of thoughts and feelings that cause your listener to become motivated and make decisions. When making a decision to take action, an investor uses the rational part of the brain to understand the meaning of an investment—that is, whether or not it's a good idea.

Understanding the meaning isn't enough to motivate action; actions require feelings and thoughts to be activated. When it comes to a client deciding about making a referral, that person needs to balance strong feelings that motivate action with clear thinking about why making the referral is a good thing to do. In the same way, when it comes to a friend deciding to engage your services or a member of your network deciding to find out more about how you can protect him from a danger in the marketplace, both thoughts and feelings must be activated to inspire motivation to act.

The main tool for helping other people make these kinds of decisions is language. The choice of words and the illustrations used to accompany those words will determine what kind of motivation is created. It's only when the recipient of your message recognizes the personal implications that he becomes motivated to act. Once the recipient is motivated, you can migrate the conversation and introduce your practice capabilities, Standard of Care and intended client experience.

AVOIDANCE OF PAIN IS THE PRIMARY MOTIVATOR

A key insight from behavioral finance research is that a desire to avoid negative sensations (loss aversion) is the primary motivator of all human behavior and activity, even in highly rational people.

Research into loss aversion shows that someone who experiences the potential of loss or has experienced an actual loss feels a great deal of pain. This pain can be in the form of fear or dread. Such fear and dread become the organizing principles for behavior and stimulants of activity.

In the absence of pain, pleasure can motivate some actions; however, research has shown that avoiding pain is more than twice as motivating as achieving pleasure. This means that the main task of the FA is how to frame an idea so that the primary motivator of behavior, avoiding pain, is activated within the listener.

SOCIAL ACCEPTANCE

Behavioral finance also teaches us that people seek social acceptance and try to avoid rejection. Because of this, most clients feel an instinctive desire to please their advisor, for the sake of preserving the positive feelings and connection. However, they feel the same way about the people they know and love. Therefore, unless someone your clients know expresses dissatisfaction with his FA or expresses a need for the type of services you offer, your client cannot know if offering you as a resource will be seen as a good thing or as an imposition. This is especially true for individuals and families who have been uniquely successful and have a high level of net worth. As wealth increases, people become highly sensitive to their social standing and the way others perceive them.

In many cases, an advisor puts the client in a double bind by asking the client to make referrals, especially if the request is made forcefully by stating, "I get paid in two ways: by the fee you pay me and the referrals you send me." This traps the client between the desire to please the advisor (and fulfill the implicit message, "You owe me") and the need to protect friends and acquaintances from unwanted messages (and messengers).

STRATEGIES FOR INSPIRING REFERRALS

There are different approaches for seeking referrals from clients, acquaintances and your social network.

FROM CLIENTS: DON'T ASK; EDUCATE

Double binds are painful for the client because they force him to choose which relationship to damage. Fortunately, there's a way to generate a referral from existing clients while protecting them from feeling the double-bind trap. The first strategy is based on a simple observation: providing information about a desired outcome impacts the other person differently than asking directly. Think about how hearing "I love having cake and ice cream on my birthday" is different than the request "Would you please make me cake and ice cream for my birthday?"

The request impinges on the listener's autonomy, while the observation ("I love…") preserves the listener's freedom; he is welcome to act any way he wishes based on this new information. As a result, this strategy allows the advisor to educate clients about referrals often, without concern that the client will feel imposed upon or constrained. As long as the client is free to decide whether or not to make the referral, the educational message serves to influence her thinking and remind her that referrals are welcomed by the practice.

Consider saying: "Historically, we've done a terrible job talking with our clients about making referrals. As a result, many of our clients have been confused about how to make a referral or even if we are taking new clients. I want to take a minute to clarify our position. If you're ever concerned about a friend or family member and you would like us to get involved, please don't hesitate to use us as a resource. In fact, we would consider your referral of a friend or family member the greatest compliment, and we would make it a priority to accommodate his or her schedule for a free consultation."

FROM FRIENDS AND ACQUAINTANCES: RESPECT AND PROTECT

For advisors who have become well established in their community, some of the best sources of new business can be their friends and acquaintances. However, these people expect relationships to be respected and protected and don't want to feel forced or bullied into taking actions.

Fortunately, there's a strategy that allows the FA to be proactive and permits the other person to retain her autonomy. Again, the strategy is one of educating, not of asking. If the advisor educates her friend about a specific problem or threat in the capital markets that her friend is unaware of but may be exposed to, the friend may be motivated to say, "I didn't know about any of this! What can I do? Is there any way you could help me?" If the friend comes to his own conclusions and decides to change the relationship by requesting help, the advisor doesn't risk jeopardizing the relationship.

There are two important keys to this strategy: how the educational message is framed and the content and focus of the message. See page 8 for details.

FROM SOCIAL MEDIA NETWORK: INVITE THEM TO OPT IN

Many advisors have misunderstood the value of their digital network and the implicit limitations that are present in these connections. As a result, advisors reach out to the people who have agreed to network with them and try to convert these links into client engagements. Occasionally, such appeals translate into business; however, observations of many hundreds of advisors have shown that results from these direct approaches are infrequent and often result in working with less desirable clients.

It's important to remember that most people who have accumulated wealth know what an FA does and many already work with at least one advisor. If they already have an FA, it is unlikely that they are using LinkedIn or Facebook to find a new advisor; people almost always prefer to be referred to a new advisor by someone they know. This means you should assume that the people in your network are there for reasons other than that they need a new FA.

You should also assume that people in your network are not hoping that more commercial messages hit their inbox. Increasingly, social networking sites are bombarding their users with advertisements. Therefore, it's important to protect people in your network from feelings of being exploited or manipulated. An uninvited communication from you offering your services is likely to be no more welcome to most people than another piece of spam is welcome in your email inbox.

Protecting your digital network does not mean that you cannot take actions designed to motivate engagement; it simply means those actions have to preserve the other person's freedom of choice and feelings of autonomy. As we've seen before, this means using a thoughtful strategy that allows you to take action without activating reactance.

With your digital network, this is simple: invite people in your network to opt in to a subgroup that receives valuable information from you. Opting in allows the individual to preserve her feelings of autonomy and self-determination. Once she says, "Yes, I'd like to receive that information from you," you can send her thoughtfully crafted messages without concern of alienating the relationship.

As before, your message should be designed to educate about a problem that has the potential to hurt in some way. The message should provide a simple, no-risk and no-cost step that a person can take to receive some value from your practice without having to change anything else in his life. By designing messages that provide insight, inspire concern and offer an easy way to get a portion of value without incurring any financial or emotional cost, you make it easy for those members of your network who opt in to your messaging to respond and move one step toward a working relationship with you. The messaging and framing follow the same guidelines as for friends and acquaintances. See page 8 for details.

MESSAGING AND FRAMING

Your insight reveals your expertise, raises a concern and gives your connection a reason to ask for more.

MESSAGE CONTENT

Disruptions in the capital markets occur often. This means that investors are constantly facing dangers in the markets that they may not be aware of or fully understand. Frequently, even their current advisor may not recognize the implications of changes in the mechanisms of the markets.

This presents an opportunity for you to introduce a problem—to illustrate how a specific, large-scale market disruption can represent a danger—and show your friend how you can help protect him by the way you manage money. Your ability to navigate these dangers and protect clients is your expertise. The fundamental idea behind this strategy is to educate your friend or acquaintance about two things: there's a danger to be concerned about, and you are an expert in dealing with it. Examples of such disruptions/dangers include (but are certainly not limited to):

+ Major changes in the municipal bond market and how those changes affect the individual ownership of bonds
+ The rapid expansion of passively managed portfolios and the implications of this "simple and familiar" approach for investors who are underfunded for retirement
+ The tendency of fixed-income investors to succumb to home-country bias in an increasingly global marketplace
+ Misconceptions about various asset classes (alternatives and/or concentrated approaches) that can provide meaningful advantages to investors seeking greater risk-adjusted return

For more on how to construct a message on the basis of an expertise in navigating disruptions in the capital markets, ask to see the AllianceBernstein Advisor Institute's guide *How to Get Clients to Take Action Now*.

FRAMING THE MESSAGE

The framing of the message is very important for this strategy to work. Consider building your pitch book according to the seven-step structure shown below.

Start with the content that you selected for the message, and then work with the client-approved materials from your (and any partner's) firm to create 10 to 15 charts that allow you to tell the story of the disruptions in the capital markets.

Call several friends and say to each: "I'm working on a new pitch book for my practice and have pulled together a story and some images for the project. I'm hoping to run this by a few people I know and get their feedback on my messaging. If I took you to lunch, would you be willing to walk through my story with me and give me some honest feedback?" Most friends will be delighted that you asked and will be eager to help.

Build out the story in the seven steps shown below. You can also find details on how to build your story in the AB Advisor Institute's guide *How to Get Clients to Take Action Now*.

CONCLUSION

Generating referrals is challenging. Our friends, family and network are accessible but don't want to feel pressured into helping. Developing an insightful and educational message, delivering it in a thoughtful manner, and allowing people to choose to help are the keys to building your business with a little help from your friends.

SEVEN-STEP STRUCTURE

1	2	3	4	5	6	7
My Firm and My Practice	Introduce a Problem (There is a danger)	Reveal the Mechanisms (Here's how it happens)	Explain the Implications (You should be concerned)	Propose a Solution (We can solve it and protect you)	Reveal the Mechanisms (Here's how the solution works)	Ask "Was This Helpful?" (Here's what we recommend)

As an advisor, your ultimate goal is to build better outcomes for your clients. At AllianceBernstein, we share your commitment. We've put our research to work for our clients around the world:

- **Exploring the opportunities and risks of the world's capital markets and the innovations that can reshape them**
- **Helping investors overcome their emotions and keep their portfolios on track**
- **Defining the importance of investment planning and portfolio construction in determining investment success**
- **Providing tools to help advisors build deeper relationships that benefit their clients and their practices**

Our research insights are a foundation to help you serve your clients. Speak to your AB relationship team to find out how we can help you.

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